

SURPLUS SCRAP PROPERTY

**DEFENSE REUTILIZATION
AND
MARKETING SERVICE**

**SUBMISSION OF BID
STEP TWO OF TWO-STEP SOLICITATION**

IFB No. 99-4001

**Bidding Instructions
and
Bid Forms**

MARCH 17, 2004 DRAFT

**BID RECEIPT DEADLINE AND BID OPENING
TO BE DETERMINED**

IFB No. 99-4001
SURPLUS SCRAP PROPERTY
Bidding Instructions
and
Bid Forms

Table of Contents

I.	GENERAL INSTRUCTIONS	3
	A. Bid Forms and Bid Deposit.....	3
	B. Item Bid and Award Page.....	3
	C. Clerical Errors.....	3
	D. Rejection of Bids.....	4
	E. Tie Bids.....	4
II.	ITEM BID PAGE AND DETERMINATION OF WINNING BID	5
	A. Item Bid Page.....	5
	B. Determination of Winning Bid	5
	C. Example Bids and Determination of Example Winning Bid	5
III.	ILLUSTRATIVE EXAMPLE OF BID FORMULATION.....	5
	A. Hypothetical Gross Proceeds.....	6
	B. Hypothetical Net Proceeds.....	7
	C. Hypothetical Distribution Payments to Contractor.....	8
	D. Hypothetical Risk Discount Percentages and Risk Discounts	9
	E. Hypothetical Risk Adjusted Distribution Payments to Contractor.....	10
	F. Hypothetical Bid Price	11
	ATTACHMENT: BID FORMS.....	A - 1

BIDDING INSTRUCTIONS

And

BID FORMS

I. GENERAL INSTRUCTIONS

A. Bid Forms and Bid Deposit

Your refundable Bid Deposit and the Bid Forms provided in the Attachment must be delivered to and received by DRMS before the bid opening at ***“A DATE AND TIME TO BE DETERMINED”***. Address your Bid Deposit and Bid Forms to:

Defense Reutilization and Marketing Service (DRMS)
Federal Center, Room 2-4-4
74 Washington Avenue N.
Battle Creek, MI 49017-3092
ATTN: Ms. Tina Aldrich

Your refundable Bid Deposit must be in the form of a guaranteed (cashier's or treasurer's) check, payable to “U.S. Treasury,” in the amount of twenty thousand dollars (\$20,000).

You must complete and submit the following two (2) Bid Forms with your Bid Deposit:

1. Item Bid and Award Page
2. Item Bid Page

B. Item Bid and Award Page

Provide all requested information on Bid Form (1), the Item Bid and Award Page (page A-2 of the Attachment, “Bid Forms”). An authorized representative of the offeror must sign this form where indicated.

C. Clerical Errors

Because this is a government contract subject to strict procedural rules, your Bid Forms must be complete and accurate. Any bid errors, even clerical errors, such as misplacing a decimal point or comma, may have severe consequences. Mistakes in bids will be reviewed in accordance with 41 C.F.R. Subpart 101-45.8.

For example, assume that you intended to specify a Bid Price of \$1,000,000 (one million dollars), but that you bid \$100,000 (one hundred thousand dollars) instead, due to a decimal point

or comma error. You may lose the contract even if your intended bid would have been the winning bid.

Alternatively assume that you intended to specify a Bid Price of \$1,000,000 (one million dollars) for your 20% share of pool net proceeds, but that you bid \$5,000,000 (five million dollars) instead, thinking in terms of a full 100% share of pool net proceeds. In this case you may win the contract, but you would be committed to pay a Bid Price five (5) times higher than you intended.

The following instructions are intended to help the prospective offeror to avoid bidding errors and to submit its intended bid accurately and in compliance with the requirements of the Bid Forms.

D. Rejection of Bids

DRMS reserves the right to reject any particular bid if DRMS determines that accepting such bid would not be in the Government's best interest.

E. Tie Bids

Pursuant to applicable Federal Property Management Regulations, if more than one bidder offers an identical Bid Price that is higher than all other offered Bid Prices, the winning bidder will be determined by lot.

II. ITEM BID PAGE AND DETERMINATION OF WINNING BID

A. Item Bid Page

The purpose of the Item Bid Page (page A - 4 of the Attachment, “Bid Forms”) is to record formally the Bid Price of the offeror.

Enter bid in whole U.S. Dollars (“Bid Price”).

Bid Price must exceed zero and be expressed in whole dollars. DRMS will ignore any “cents” entered on the Bid Form.

B. Determination of Winning Bid

To determine the winning bid, DRMS will use the Bid Price entered on the Item Bid Page.

Mistakes in bids will be reviewed in accordance with 41 C.F.R. Subpart 101-45.8. In order to minimize the chance that bidders make mistakes when entering their Bid Prices, bidders are encouraged to review the Item Bid Page carefully before submission.

C. Example Bids and Determination of Example Winning Bid

Assume that Example Bidders X, Y and Z submit corresponding Example Bids as follows:

Example Bid by Bidder X for National Scrap Venture Contract
Bid Price
\$1,000,000

Example Bid by Bidder Y for National Scrap Venture Contract
Bid Price
\$900,000

Example Bid by Bidder Z for National Scrap Venture Contract
Bid Price
\$1,400,000

Assuming that all Offerors are responsible and qualified, the determination of the Winning Bid in this process is relatively simple. The sale contract in this case would be awarded to Bidder Z, which offered the highest Bid Price (\$1,400,000).

III. ILLUSTRATIVE EXAMPLE OF BID FORMULATION

While the example bids given above are purely hypothetical, actual bids would generally be expected to take into account the qualitative factors addressed in the following Illustrative Example, in addition to any other considerations that bidders may have. Note that the specifics are only illustrative and not intended to offer any quantitative guidance to bidding.

A. Hypothetical Gross Proceeds

Assume that the bidder uses the data on recent trends in DRMS Gross Proceeds presented in Table X and depicted in Figures X of the IFB, combined with the DRMS projections of future Gross Proceeds presented in Part X of the IFB, to develop the following path of Hypothetical Gross Proceeds in Table III.A as a starting point for its bid determination.

Table III.A Hypothetical Gross Proceeds (\$000's) National Scrap Venture Contract							
	Year						
	1	2	3	4	5	6	7
Hypothetical Gross Proceeds	\$8,000 *	\$ 11,000	\$ 9,000	\$ 9,000	\$ 8,000	\$ 8,000	\$ 8,000
* Assumes \$12,000,000 annual sales reduced to \$8,000,000 due to phase-in in first year							

B. Hypothetical Net Proceeds

Assume that the bidder estimates Direct Costs to be approximately 60% of Hypothetical Gross Proceeds. Applying that 60% factor uniformly across all seven years of the initial Performance Period would yield the Hypothetical Direct Costs and Hypothetical Net Proceeds in Table III-B below.

Table III.B							
Hypothetical Net Proceeds							
(\$000's)							
National Scrap Venture Contract							
	Year						
	1	2	3	4	5	6	7
Hypothetical Gross Proceeds	\$ 8,000	\$ 11,000	\$ 9,000	\$ 9,000	\$ 8,000	\$ 8,000	\$ 8,000
Hypothetical Direct Costs (=60% of Hypothetical Gross Proceeds)	\$5,800 *	\$ 6,600	\$ 5,400	\$ 5,400	\$ 4,800	\$ 4,800	\$ 4,800
Hypothetical Net Proceeds (= Hypothetical Gross Proceeds - Hypothetical Direct Costs)	\$ 2,200	\$ 4,400	\$ 3,600	\$ 3,600	\$ 3,200	\$ 3,200	\$ 3,200
* Costs of \$5,800,000 in first year are assumed to include an additional \$1,000,000 in start-up costs							

C. Hypothetical Distribution Payments to Contractor

Now applying a 20% factor to reflect the 20% sharing percentage in the contract yields the hypothetical Distribution Payments to the Contractor shown in Table III-C below.

Table III.C Hypothetical Distribution Payments to Contractor (\$000's) National Scrap Venture Contract							
	Year						
	1	2	3	4	5	6	7
Hypothetical Gross Proceeds	\$ 8,000	\$ 11,000	\$ 9,000	\$ 9,000	\$ 8,000	\$ 8,000	\$ 8,000
Costs (= 60% of Hypothetical Gross Proceeds)	\$ 5,800	\$ 6,600	\$ 5,400	\$ 5,400	\$ 4,800	\$ 4,800	\$ 4,800
Hypothetical Net Proceeds (= Hypothetical Gross Proceeds - Hypothetical Direct Costs)	\$ 2,200	\$ 4,400	\$ 3,600	\$ 3,600	\$ 3,200	\$ 3,200	\$ 3,200
Hypothetical Distribution Payments to Contractor (= 20% of Hypothetical Net Proceeds)	\$ 440	\$ 880	\$ 720	\$ 720	\$ 640	\$ 640	\$ 640

D. Hypothetical Risk Discount Percentages and Risk Discounts

Assume finally that the bidder attempts to balance risk factors (such as risk associated with product flow, material composition, operational costs, resale pricing in the Scrap marketplace, etc.) against the potential for net revenue enhancement. The bidder develops the Hypothetical Risk Discount Percentages and Risk Discounts presented in Table III-D. Note that the bidder applies a higher discount percentage in Year 1 than to Years 2-7 because of uncertainty about the schedule, costs and revenues associated with the Phase-In Period and ramping up operations at the beginning of the contract.

Table III.D							
Hypothetical Risk Discount Percentages and Risk Discounts							
(\$000's)							
National Scrap Venture Contract							
	Year						
	1	2	3	4	5	6	7
Hypothetical Gross Proceeds	\$ 8,000	\$ 11,000	\$ 9,000	\$ 9,000	\$ 8,000	\$ 8,000	\$ 8,000
Hypothetical Direct Costs (= 60% of Hypothetical Gross Proceeds)	\$ 5,800	\$ 6,600	\$ 5,400	\$ 5,400	\$ 4,800	\$ 4,800	\$ 4,800
Hypothetical Net Proceeds (= Hypothetical Gross Proceeds - Hypothetical Direct Costs)	\$ 2,200	\$ 4,400	\$ 3,600	\$ 3,600	\$ 3,200	\$ 3,200	\$ 3,200
Hypothetical Distribution Payments to Contractor (= 20% of Hypothetical Net Proceeds)	\$ 440	\$ 880	\$ 720	\$ 720	\$ 640	\$ 640	\$ 640
Hypothetical Risk Discount Percentages	60%	40%	40%	40%	40%	40%	40%
Hypothetical Risk Discounts (= Hypothetical Distribution Payments to Contractor multiplied by Hypothetical Risk Discount Percentages)	\$ (264)	\$ (352)	\$ (288)	\$ (288)	\$ (256)	\$ (256)	\$ (256)

E. Hypothetical Risk Adjusted Distribution Payments to Contractor

The application of these risk discounts (Table III.D) to the Hypothetical Distribution Payments to Contractor (Table III.C above) yields the Hypothetical Risk Adjusted Distribution Payments to Contractor in Table III.E.

Table III.E Hypothetical Risk Adjusted Distribution Payments to Contractor (\$000's) National Scrap Venture Contract							
	Year						
	1	2	3	4	5	6	7
Hypothetical Gross Proceeds	\$ 8,000	\$ 11,000	\$ 9,000	\$ 9,000	\$ 8,000	\$ 8,000	\$ 8,000
Costs (= 60% of Hypothetical Gross Proceeds)	\$ 5,800	\$ 6,600	\$ 5,400	\$ 5,400	\$ 4,800	\$ 4,800	\$ 4,800
Hypothetical Net Proceeds (= Hypothetical Gross Proceeds - Hypothetical Direct Costs)	\$ 2,200	\$ 4,400	\$ 3,600	\$ 3,600	\$ 3,200	\$ 3,200	\$ 3,200
Hypothetical Distribution Payments to Contractor (= 20% of Hypothetical Net Proceeds)	\$ 440	\$ 880	\$ 720	\$ 720	\$ 640	\$ 640	\$ 640
Hypothetical Risk Discount Percentages	60%	40%	40%	40%	40%	40%	40%
Hypothetical Risk Discounts (= Hypothetical Distribution Payments to Contractor multiplied by Hypothetical Risk Discount Percentages)	\$ (264)	\$ (352)	\$ (288)	\$ (288)	\$ (256)	\$ (256)	\$ (256)
Hypothetical Risk Adjusted Distribution Payments to Contractor (= Hypothetical Distribution Payments minus Hypothetical Risk Discounts)	\$ 176	\$ 528	\$ 432	\$ 432	\$ 384	\$ 384	\$ 384

F. Hypothetical Bid Price

The bidder must calculate an appropriate Bid Price that is consistent with the bidder's estimates of Risk Adjusted Distribution Payments to Contractor over the seven years of the contract (from Table III.E). This requires discounting the flow of Risk Adjusted Distribution Payments to a present value determined with respect to a suitable discount rate selected by the bidder. For example, one bidder may select an 8% annual discount rate, another bidder may select a 12% annual discount rate, and another bidder may select a 16% annual discount rate.

Note that there is no single "correct" discount rate; rather it must be determined by the individual bidder based upon its time value of money, financial circumstances, alternative business opportunities, and any other factors that a bidder deems relevant. Note also that there is a trade-off between the appropriate discount rate and the risk discount percentage in Section D above.

Solely for the purpose of illustrative calculations, Table III.F, below, applies a 10% discount rate to determine this bidder's Hypothetical Bid Price. Though the Bid Price should be considered as a "sunk cost" once operations have begun, the Bid Price should be commensurate with the bidder's expectations of recuperation of that cost and eventual profitability of the Scrap Venture should the bidder be awarded the sale contract.

The Hypothetical Bid Price determined by this bidder is \$1,868,240 (one million, eight hundred sixty-eight thousand, two hundred forty dollars). This is the amount that this bidder offers to pay upon award of the contract. Thus, \$1,868,240 would be entered in the Item Bid Page (at p. A-4 of the Attachment) in the column labeled "Bid Price."

Table III.F Hypothetical Bid Price (\$000's) National Scrap Venture Contract							
	Year						
	1	2	3	4	5	6	7
Hypothetical Gross Proceeds	\$ 8,000	\$ 11,000	\$ 9,000	\$ 9,000	\$ 8,000	\$ 8,000	\$ 8,000
Hypothetical Direct Costs (= 60% of Hypothetical Gross Proceeds)	\$ 5,800	\$ 6,600	\$ 5,400	\$ 5,400	\$ 4,800	\$ 4,800	\$ 4,800
Hypothetical Net Proceeds (= Hypothetical Gross Proceeds - Hypothetical Direct Costs)	\$ 2,200	\$ 4,400	\$ 3,600	\$ 3,600	\$ 3,200	\$ 3,200	\$ 3,200
Hypothetical Distribution Payments to Contractor (= 20% of Hypothetical Net Proceeds)	\$ 440	\$ 880	\$ 720	\$ 720	\$ 640	\$ 640	\$ 640
Hypothetical Risk Discount Percentages	60%	40%	40%	40%	40%	40%	40%
Hypothetical Risk Discounts (= Hypothetical Distribution Payments to Contractor multiplied by Hypothetical Risk Discount Percentages)	\$ (264)	\$ (352)	\$ (288)	\$ (288)	\$ (256)	\$ (256)	\$ (256)
Hypothetical Risk Adjusted Distribution Payments to Contractor (= Hypothetical Distribution Payments minus Hypothetical Risk Discounts)	\$ 176	\$ 528	\$ 432	\$ 432	\$ 384	\$ 384	\$ 384
Hypothetical Bid Price (Discounted Present Value at 10%)	\$1,868.24 *						
* Hypothetical Bid Price is \$1,868,240, as all numbers in the table are in thousands of dollars (\$000's).							

ATTACHMENT:

BID FORMS

The Bid Forms provided herein must be delivered to and received by DRMS with your Bid Deposit no later than ***“TO BE DETERMINED”***. Address your Bid Forms and Bid Deposit as follows:

Defense Reutilization and Marketing Service (DRMS)
Federal Center, Room 2-4-4
74 Washington Avenue N.
Battle Creek, MI 49017-3092
ATTN: Ms. Tina Aldrich

You must complete and submit the following two (2) Bid Forms with your Bid Deposit:

1. Item Bid and Award Page
2. Item Bid Page

**SURPLUS INDUSTRIAL PROPERTY
INVITATION FOR BIDS
STEP TWO OF TWO-STEP SEALED BIDDING**

RFTP No. 99-4001

SALE OF GOVERNMENT PROPERTY

1. ITEM BID AND AWARD PAGE

Address Your Bid To: Defense Reutilization and Marketing Service (DRMS) Federal Center, Room 2-4-4 74 Washington Avenue N. Battle Creek, MI 49017-3092 ATTN: Ms. Tina Aldrich	Bids Will be Opened At: Defense Reutilization and Marketing Service DRMS-BP 74 Washington Avenue N. Battle Creek, Michigan 49017-3092	
	Date: TO BE DETERMINED	Time: 9:00 am EST
Sealed bids for purchasing the items listed on this IFB will be accepted at the address shown above until the specified date and time. At that time the bids will be publicly opened, subject to:		
1. TERMS AND CONDITIONS AS SET FORTH IN THE INVITATION FOR BIDS.		
2. PAYMENT REQUIREMENTS AS SET FORTH IN THE INVITATION FOR BIDS.		
BID (This Section to be Completed by the Bidder)		
In compliance with the above, the undersigned offers and agrees, that the Government may accept this Bid at any time within one hundred twenty (120) calendar days after the date of Bid Opening. The amount of the Bid Price is as set forth on the attached Item Bid Page.		
THE BIDDER (Check appropriate boxes): 1. <input type="checkbox"/> is, <input type="checkbox"/> is not, an individual or a small business concern. (See CFR, title 13, Chapter 1, Part 121, Sec. 121.2-9, for the definition of small business.) 2a. <input type="checkbox"/> has, <input type="checkbox"/> has not, employed or retained any company or person (other than a full-time, bona fide employee working solely for the Bidder) to solicit and secure this contract, and 2b. <input type="checkbox"/> has, <input type="checkbox"/> has not, paid or agreed to pay any company or person (other than a full-time, bona fide employee working solely for the Bidder) any fee, commission, percentage or brokerage fee, contingent upon or resulting from the award of this contract; and agrees to furnish information relating to (a) and (b) above as requested by the Sales Contracting Officer (for interpretation of the representation, including the term "bona fide employee." (See CFR, Title 41, Subpart 101-65.3.))		
Name and Address of Bidder (Street, City, State and Zip Code) (Type or Print) (MUST BE ON ENVELOPE) Telephone Number:	Signature of Person Authorized to Sign This Bid Signer's Name and Title (Type or Print) Date of Bid	
ACCEPTANCE BY THE GOVERNMENT (This Section for Government Use Only)		
Accepted as to all items (FOR ACCEPTANCE INFORMATION SEE DRMS FORM 1427 ATTACHED)	United States of America By: (Sales Contracting Officer)	Date of Acceptance
Contract Number	Name and Title of Sales Contracting Officer	

**SURPLUS SCRAP PROPERTY
INVITATION FOR BIDS
STEP TWO OF A TWO-STEP SEALED BIDDING
RFTP No. 99-4001
SALE OF GOVERNMENT PROPERTY
2. ITEM BID PAGE**

Bid Price (Whole Dollars Only)
\$

Bid Number to be Filled In By DRMS Sales Office:	Name, Address and Telephone Number of Bidder:

Standard Form 114A